MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BBF1014 – FINANCIAL MANAGEMENT 1

(All Sections/Groups)

28 FEBRUARY 2020
3.00 p.m – 5.00 p.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 3 pages with 4 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Answer ALL questions. (100 marks)

QUESTION 1

(a) Define a coupon bond. Justify whether it is true that the cash flows of a coupon bond are different from an amortising loan. (9 marks)

(b) ABC is a multinational firm listed on the New York Stock Exchange. The ABC bond has a current price of $800, a maturity value of $1,000, and matures in 5 years. If interest is paid semi-annually and the bond is priced to yield 8%, what is the bond's annual coupon rate? (6 marks)

(c) Suppose you have the option of keeping your money in a savings account that pays interest at the rate of 6% per year, compounding it every year. You plan to keep this money for the next 10 years and then withdraw it. You would like to have RM1000 after 10 years. How much money should you deposit right now? (4 marks)

Suppose a zero-coupon bond with face value RM1000 is also available, which matures after 10 years and you wish to make a 5% return on a bond. Will it serve your purpose perfectly? Show your calculation. (8 marks)

(d) Investment ABC produces year-end annual cash flows of RM8,500 the first year, RM10,000 the second year, and RM12,000 the third year. Assuming a discount rate of 10 percent, what is the value of the investment? (3 marks)

(Total: 30 marks)

QUESTION 2

(a) You believe that there is a 30% probability that the dividend paid by Syarikat ABC next year is going to be RM0.45 and a 70% probability that the dividend will increase to RM0.50. You also feel that Syarikat ABC will grow at the rate of 8% for the long term. Your required rate of return for Syarikat ABC stock is 12%. How much should you pay for a share of Syarikat ABC? (5 marks)

(b) ABC Industries presently pays an annual dividend of RM1.20 per share and it is expected that these dividend payments will continue indefinitely. If ABC's equity cost of capital is 10%, what is the value of a share of ABC's stock? If the current stock price is RM15, would you buy it? Explain. (6 marks)

(c) What is the value of an asset which pays RM200 a year for the next 5 years and can be sold for RM1,500 at the end of five years from now? Assume that the opportunity cost is 10 percent. (3 marks)

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(d) ABC is a novice investor in the United States (U.S.). Before she makes investing decisions, she would like to know more about common stocks and preferred stocks. Discuss **THREE (3)** differences between them. If she is a risk taker, propose which investment is more suitable for her. (16 marks)

(Total: 30 marks)

QUESTION 3

(a) Syarikat ABC has the following forecast figures for its 5th year of trading. Assume there are 365 days in the year.

Sales = RM3,600,000
Purchases expense = RM3,000,000
Average receivables = RM306,000
Average inventory = RM495,000
Average payables = RM230,000
Average overdraft = RM500,000
Gross profit margin = 25%

Industry average data:

Inventory days = 53
Receivables days = 23
Payables days = 47
Current ratio = 1.43

Calculate Syarikat ABC's cash conversion cycle. (10 marks)

(b) Syarikat ABC is in the process of negotiating a line of credit with two local banks, X and Y. The base rate is currently 8 percent. The loan terms are as follows:

Bank X: 1 percent above the base rate on a discounted basis and a 20 percent compensating balance on the face value of the loan.

Bank Y: 2 percent above the base rate and a 15 percent compensating balance.

Calculate the effective interest rate of both banks. Evaluate and recommend which bank's line of credit Syarikat ABC should accept.

(7 marks)

Continued...

(c) ABC Mining has extended credit terms of 3/15 net 30 EOM. What is the cost of giving up the cash discount, assuming payment would be made on the last day of the credit period?

(3 marks)

(Total: 20 marks)

QUESTION 4

(a) Given the financial data for ABC, Inc. (ABC), compute the following measures of cash flows for ABC for the year ended December 31, 2019.

Items	2019 (RM)	2018 (RM)
Depreciation	3,000	
EBIT	30,000	
Interest expenses	3,000	
Taxes	8,000	
Cash	24,000	21,000
Account receivable	45,000	39,000
Inventory	30,000	27,000
Net fixed assets	24,000	22,000
Account payable	30,000	25,000
Notes payable	40,000	50,000
Accruals	2,000	1,000

(i) Operating cash flow (OCF). (3 marks)
(ii) Free cash flow (FCF). (9 marks)

(b) Define free cash flow. Argue with **TWO (2)** examples of corporate exercises that will reduce the long-term viability of a business in order to improve its short-term free cash flows. (8 marks)

(Total: 20 marks)

End of Paper